HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Québec CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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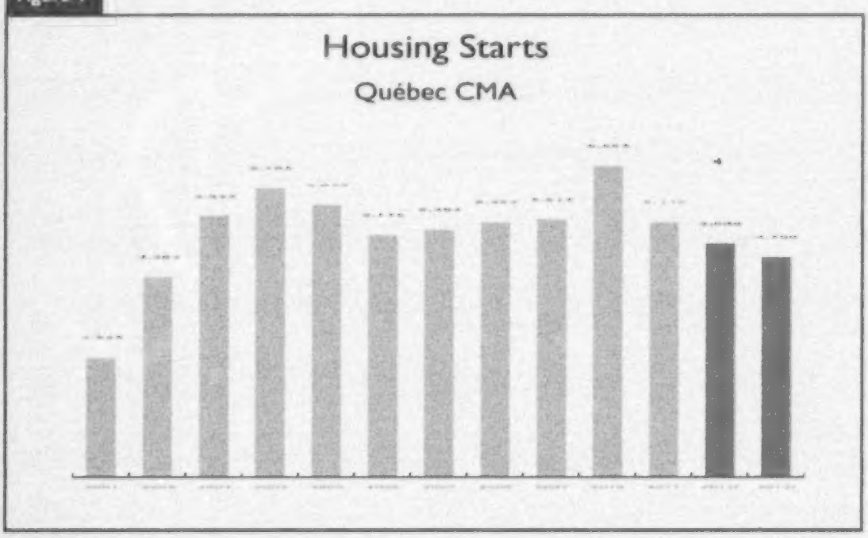
Québec housing market to moderate[1]

After having reached a peak in 2010, housing starts fell by 18 per cent in 2011. At the same time, activity on the existing home market increased slightly. This year and next year, the Québec census metropolitan area (CMA) housing market will be supported by continued favourable economic conditions.

Still, some factors will limit demand, especially for new homes. For one thing, the greater choice of properties for sale will be less favourable to sellers and allow activity to pick up on the existing home market. The state of the market will remain similar to the situation observed in 2011, as softer conditions will limit the growth in prices. For another, several factors

Figure 1



Source: CMHC
f: CMHC forecasts

[1] The forecasts provided in this document are based on the information available on April 27, 2012

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will continue to support residential construction over the forecast horizon, including sound employment, demographic growth and low interest rates. However, the broader supply of existing homes and new unabsorbed condominiums will dampen housing starts. As well, the increase in mortgage interest rates will cause the overall market to moderate in 2013. Lastly, the rental market should stay on an easing trend, as a result of an increase in supply.

Job market to maintain its gains

While numerous capital projects have enabled the Québec CMA labour market to stand out in recent years, other upcoming projects will also support employment, even as the economic recovery will be rather moderate in the province overall. During the next few years, the area will benefit from major new investments in institutional, commercial, airport, marine and road infrastructure.

The picture for the first few months of the year is in fact pointing to a still favourable period in 2012. The unemployment rate hovered around 5.0 per cent, and the labour force participation rate surpassed the 70-per-cent mark. Full-time jobs continued to rise, demonstrating the soundness of the regional economy. This vitality will be especially reflected in the construction and professional, scientific and technical services sectors (including jobs in the engineering, related services and surveying sector). The insurance industry, which continues to grow, will also act as a job catalyst. As well, the health care sector will be another job creator on account of the growing needs related to the aging of the population and the increasing demand for daycare services.

These prevailing conditions will allow the labour market to maintain its gains and even post a moderate increase both this year and next year. Employment growth should reach 0.5 per cent in 2012 and 1.0 per cent in 2013. The Québec area will continue to stand out among Canada's urban centres, with still one of the lowest unemployment rates for the next two years (5.2 per cent in 2012 and 5.0 per cent in 2013).

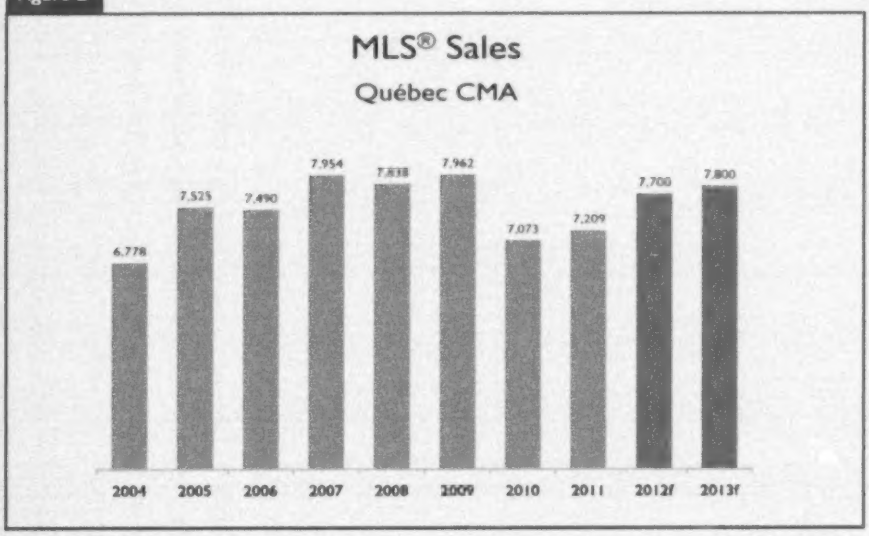
A growing population

Between 2006 and 2011, the Québec CMA population grew by 6.5 per cent[2], for the strongest increase among the major urban centres in the province. In 2011, the total population of the CMA reached 765,700 inhabitants, or 46,500 more than in 2006. In terms of households, the growth was 9.3 per cent over the same period, for a gain of 29,359 households in the area. This was in line with the level of activity observed in the residential construction sector, as nearly 28,400 new housing units were added.

The job market growth largely contributed to the increase in the regional population, and this was also reflected in net migration. Between 2006 and 2011, more than 23,000 people were added through migration flows alone.

Given the soundness of the job market, demographic growth is expected to continue in the CMA. The newcomers will arrive mainly from other regions in the province and, to a lesser extent, from abroad. The retention effect of a strong labour market on workers, which will limit

Figure 2



Source: QFREB by Centris®
f: CMHC forecasts

[2] Statistics Canada. 2012. Québec, Quebec (Code 421) and Quebec (Code 24) (table). Census Profile. 2011 Census. Statistics Canada Catalogue no. 98-316-XWE. Ottawa. Released February 8, 2012.
http://www12.statcan.ca/census-recensement/2011/dp-pd/prof/index.cfm?Lang=E
(accessed May 22, 2012).

emigration overall, should also be taken into account.

All in all, net migration in the area will rise by 4 per cent in both 2012 and 2013. Demographic growth will continue to support housing demand in the CMA, not only in the rental segment but also on the overall market.

Mortgage rates

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Resale market to resume a more sustained pace

The strong employment, low mortgage rates and greater supply of properties for sale will stimulate the market this year. The growth in MLS® transactions, which had reached 2.0 per cent in 2011, will pick up in 2012, with a gain of 6.8 per cent, for a total of 7,700 sales. Then, in 2013, the increase in activity is expected to slow down on account of the rising mortgage rates, and MLS® sales should edge up by 1.3 per cent, to 7,800 units.

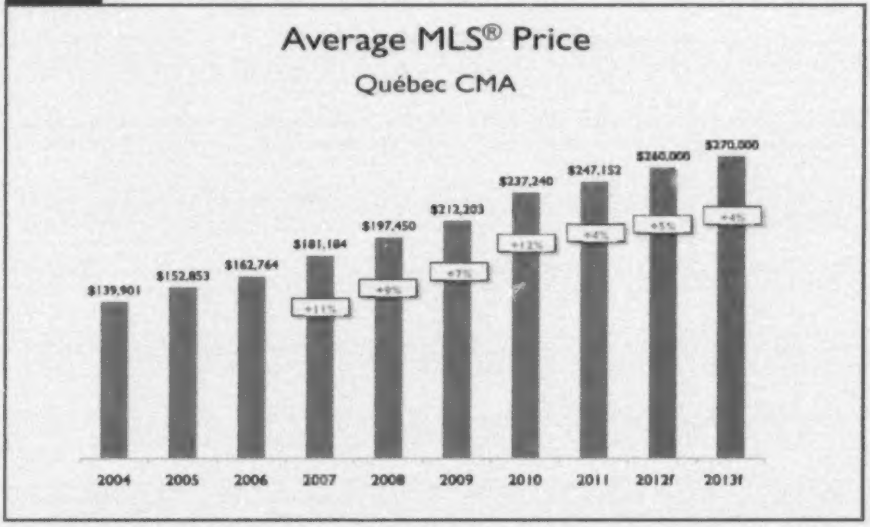
The supply of existing homes grew in 2011, as active listings rose by 30 per cent. This was mainly due to two factors: an increase in new listings and a slower pace of sales in 2010 and 2011. In April of this year, there were 4,675 properties for sale through real estate brokers, or 20 per cent more than a year earlier. It should also be noted that it was in the condominium segment that supply particularly grew (+35 per cent). This year, active listings should rise by 6.4 per cent, reaching an average of 4,300 units. This will put buyers in a better position, since they will have more choice. However, with transactions anticipated to increase in 2012, active listings are expected to decrease by 11.6 per cent next year, to an average of 3,800 properties. Despite a slight slowdown of the market, the relationship between supply and demand will be less tight than it has been, on average, since the early 2000s.

The softer market conditions will limit the growth in prices. Still, it is expected that, overall, the market will continue to favour sellers. In 2012, market conditions will be similar to the situation observed in 2011, and the average MLS® price of residential properties will reach $260,000, for an increase of 5 per cent. Next year, this growth will moderate somewhat, falling to 4 per cent, and the average price should rise to $270,000. The increase in prices will therefore be well below the average of the last 10 years.

New home market to moderate

Several factors will continue to support residential construction over the period under review: strong employment, demographic growth and low interest rates. Still, the greater supply on the existing home market will dampen demand for new homes. As well, the anticipated increase in interest rates in 2013 will also slow

Figure 3



Source: QFREB by Centris®
f: CMHC forecasts

the market, to a certain extent.

Single-detached houses will continue to lose ground, as an 11-per-cent decrease in starts is expected in 2012, for a total of 1,200 units of this type getting under way this year. This downward trend will continue in 2013, when foundations should be laid for 1,100 units, for a drop of 8 per cent from 2012. Rising land prices and construction costs and generally higher prices are causing a number of buyers to turn increasingly toward more affordable housing products, such as condominiums, semi-detached houses and row homes. As well, the intensification trend and the price difference between existing and new homes should also be taken into account. In addition to the decline in starts, the market share of single-detached homes is bound to fall in the CMA.

In the multiple-unit housing segment, semi-detached and row housing starts will decline as a result of the more abundant supply on the existing home market.

Condominium construction should also decrease this year. In 2011, starts of this type reached a peak, with close to 2,000 units. Several factors support the emergence of condominiums. First, these dwellings are generally more affordable than single-detached homes, for example. Second, they meet the intensification requirements of the major cities in the CMA. Third, condominiums satisfy the needs of quite a few households: older households who would like a home requiring little maintenance or wish to live downtown (near services), single-person households, or else younger households wanting to access homeownership. Over time, it seems that households have grown to like this housing type, which should maintain its market share despite the anticipated decreases. It should be noted that the supply of condominiums is particularly abundant. In fact, the level of units currently under construction is historically high, as is the number of completed and unoccupied units. Also, the supply is significant on the existing home market. Starts are therefore expected to fall, with totals of 1,600 units this year (-20 per cent) and 1,400 next year (-13 per cent).

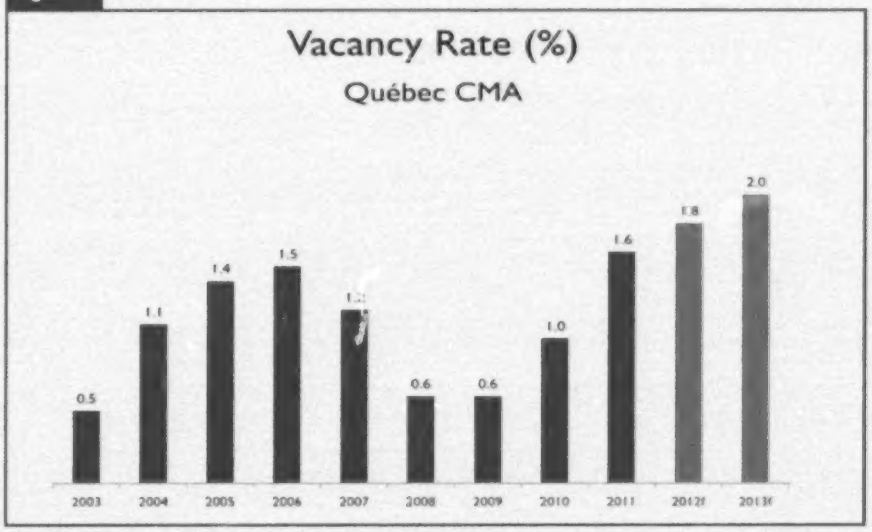
There is a considerable demand for rental housing in the Québec CMA and, despite the slight easing of the market noted in October of last year, the vacancy rate[3] remained low, which will contribute to stimulating construction this year and next year. As well, the retirement home market will be less active than it once was, but a major project was just started in the Haute-Ville sector. After a rather calm year in 2011, several projects should get under way this year and, overall, rental housing construction will rise by nearly 40 per cent in 2012, before stabilizing in 2013. In all, rental housing starts should reach 1,200 units both this year and next year.

Overall, residential construction will moderate. In 2012, the drop will be 8 per cent, bringing total starts to 5,000 units. Next year, 4,700 dwellings will get under way in the CMA, for a decrease of 6 per cent.

Rental market to ease

The factors supporting rental housing demand will remain well in place this year and next year: strong migration to the CMA, solid employment and aging of the population. This last factor is also boosting rental housing demand as, in terms of residential path, some older households return to renting. In the Québec area, baby boomers represent 42 per cent of households. Over the next few years, a certain proportion of them will be fuelling

Figure 4



Source: CMHC
f: CMHC forecasts

[3] Excluding retirement homes.

demand for rental housing.

On the other hand, with the growth in the housing supply, market conditions will ease. The vacancy rate is therefore expected to rise slightly this year, reaching 1.8 per cent in October 2012. The easing will continue in 2013, when the percentage of unoccupied units should attain 2.0 per cent.

In 2012 and 2013, less significant rent increases are anticipated, given the softer market conditions. In the CMA, the average rent for two-bedroom apartments should rise to about $730 this year and then to $740 next year.

Forecast Summary
Québec CMA
Spring 2012

	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market[1]							
MLS® Sales	7,962	7,073	7,202	7,700	6.9	7,800	1.3
MLS® Active Listings	3,243	3,107	4,046	4,300	6.3	3,800	-11.6
MLS® Average Price ($)	212,203	237,309	247,120	260,000	5.2	270,000	3.8
New Home Market							
Starts:							
Single-Detached	1,746	1,768	1,349	1,200	-11.0	1,100	-8.3
Multiples	3,767	4,884	4,096	3,800	-7.2	3,600	-5.3
Starts - Total	5,513	6,652	5,445	5,000	-8.2	4,700	-6.0
Average Price ($):							
Single-Detached	294,172	292,370	313,905	315,000	0.3	320,000	1.6
New Housing Price Index (% chg.)	7.0	3.2	1.4	2.0	-	2.0	-
Rental Market[2]							
October Vacancy Rate (%)	0.6	1.0	1.6	1.8	-	2.0	-
Two-bedroom Average Rent (October) ($)	676	692	718	730	-	740	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	395,100	410,200	419,700	421,800	0.5	426,000	1.0
Employment Growth (%)	0.3	3.8	2.3	1.5	-	1.0	-
Unemployment rate (%)	4.9	4.9	5.3	5.2	-	5.0	-
Net Migration	4,625	4,707	4,643	4,825	3.9	5,025	4.1

[1] Source : QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®

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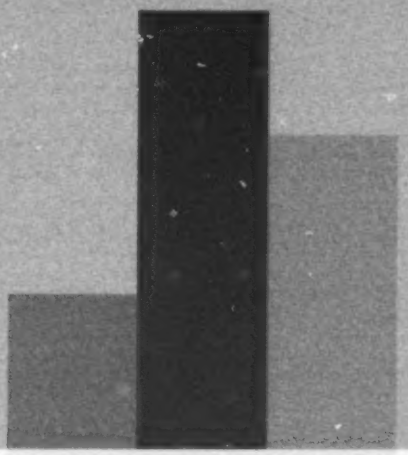

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